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	Office of Research and Reports	
MEROBANIUM:	The Impact of the "Cultural Revolution" on the Economy of Communist China	
in China must be contained by in insulation the regime genterprises. from many so to confirm, Severtheless	t secondarily be tentetive at this time. First, the valution is only beginning to run its course in the ere. Until mid-Docember, the regime was fairly successful give economy from its effects. Only in mid-Docember did ive the signal for the spread of the sovement into sconomic Second, although there is a large value of reporting areas the reporting is fragmentary, extremely difficult and unsuited for quantitative analysis or over-all judgments. Some debilitating effects upon account activity are rest and there are indications of yet others to follow.	
If the region	e allows these trends to continue, the consequences for secondary may be greater than in the "time of troubles" which followed the Great Leap Forward.	
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have been disruptions in the operations of the port of Shanshei 4. Beientific and technological ork and foreign trade have also been affected. Nost of the technical schools attached to various industrial ministries appear to have shat-does in response to the mid-1966 order chosing does adult and higher advantages industrial research being forced to devote nore that to the 'revolution' and less to their customery tests. In foreign trade, at least some Chinese officials have been reductant to conclude contrasts with free world products of industrial equipment, a.g., steel-finishing equipment fields is being affected by the senstant turnell which exists in all major Chinese cities and the regime's stated aim of replacing anterial insentives with revolutionary fervor. Aside from the general wage increase of 1956 and the selective increases of 1963, the regime has held the line on wages. Frassures for change have leveloped over the years and conflict with the regime's long-standing position that wage differentials must be narround rather than sidened. The regime maintains that demands for increased wages are stimulated by 'revisationits' samagement. The Chinese worker's desire for higher wages is, however, genuine and, although evidence is lacking, almost certainly affects worker productivity.	4. Maientific and technological work and for been affected. Most of the technical schools atta industrial ministries appear to have shut-down in mid-1966 order closing down middle and higher educe There have also been several instances of personne receased being forced to devote more time to the lass to their customary tasks. In foreign trade, officials have been rejuctant to conclude contract productes of industrial equipment, z.g., steel-fin from West Germany. J. It is highly likely that worker productive fields is being affected by the constant turnoil of major Chinase cities and the regime's stated aim of increase of 1956 and the selective increases of 196 hald the line on wages. Fressures for change have years and conflict with the regime's long-standing differentials must be assrowed rather than widened that demands for increased wages are stimulated by management. The Chinase worker's desire for higher guardness and, although evidence is lacking, almost of	200090062-7
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- 6. The main source of authority in the economic life of Commonist Chins has sivers been the Chinese Communist Party. A prominent feature of the "cultural revolution" has been the attacks at every level against party officials who oversee sconomic activity. Some top economic planning officials may have been purged, as well as numerous others at lover levels. The regime's views on what authority vill eventually replace that of the CCP in scommonic matters, or on how the authority of the CCF will be restored, are not clear at this point. In the meantime, rational measurement is lacking and labor discipline has become difficult to enforce.
- 7. Even if the regime attempts to cut its losses by halting the "enitural revolution" now - and there are few signs that it will -economic performance in 1967 will be effected by what has occurred acfar. Prospects in the nonagricultural sector are not promising. If present trends continue, even high priority military industries may suffer. Should the "revolution" be extended into the agricultural sector, food shorteges are likely to result. When the schools reapen, admission standards and curricule are to be drastically changed along more "revolutionary" lines. The long-term effect of these changes cannot be measured, but they can only be detrimental to the economic development of Communist China.
- 8. Disturbences in the economy to date have been relatively isolated in their effect and have not been mutually reinforcing. with the passage of time, however, this result, becomes more likely.

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